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ABSTRACT

This report consolidates the information from a series of reports by the General Accounting Office (GAO) on states' fiscal, programmatic, and managerial responses to the Omnibus Budget Reconciliation Act of 1981. Section 1 describes the major issues related to block grant implementation: (1) fiscal strategies adopted by states in response to federal funding changes; (2) alteration of program priorities; (3) interest groups' assessments of state actions; (4) implementation of new management role; (5) management improvements; and (6) divergent views on desirability of block grants. Section 2 describes key block grant decisions that lie ahead: (a) issues related to funding levels and national allocation procedures; (b) the need for better data to assess program changes and services delivered; (c) state/local dynamics as they relate to public and administrative accountability; (d) the importance of prior involvement; and (e) future GAO efforts to focus on funding and oversight. Two appendixes list the series of GAO reports on the implementation of block grants created by the Omnibus Budget Reconciliation Act of 1981 and the categorical programs consolidated into block grants under this Act. (TE)

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ED257206

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Block Grants: Overview Of Experiences To Date And Emerging Issues

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COMPTROLLER GENERAL OF THE UNITED STATES
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To The President of the Senate and the
Speaker of the House of Representatives

In recent years the amount and character of federal aid to state and local governments have significantly changed. The most profound move occurred in 1981, when 80 narrowly focused categorical programs were consolidated into 9 broad-based block grants covering health and social services, education, community services and development, and energy assistance. These block grants shifted much of the control and accountability from the federal to state governments.

Since the results of these consolidations have been of great interest to the Congress, GAO documented states' fiscal, programmatic, and managerial responses to their new responsibilities in a series of reports (see app. I). The purpose of this report is to consolidate the information on block grant experiences contained in these prior reports and highlight important issues. Section 1 describes the major issues related to block grant implementation, and section 2 discusses key block grant decisions that lie ahead.

Block grants have promoted important changes in how our nation decides what public services are provided and how governmental accountability is ensured. The longer term institutional and programmatic implications of such a fundamental shift hinge on many future decisions. This report provides a useful framework for deliberating future block grant proposals.

Copies of this report are being sent to the President; the appropriate House and Senate committees; all Senators and Members of Congress; the Secretaries of Health and Human Services and of Education; the Director, Office of Management and Budget; and the governors and legislatures in all states.

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

BLOCK GRANTS: OVERVIEW OF EXPERIENCES TO DATE AND EMERGING ISSUES

D I G E S T

The Omnibus Budget Reconciliation Act of 1981 ushered in a new era of relationships between the federal and state governments. Gone are many of the federally administered categorical grants with their detailed rules and procedures. In their place are block grants, which give far more authority to states and entail far fewer federal requirements.

An objective of block grants was to focus program responsibility and management accountability with states, where the public would be more closely involved in the decision-making process. Block grants were also expected to improve service delivery by fostering better integration of related federal and state programs. Additionally, they were to promote management improvements and save money by emphasizing the use of existing state systems.

Block grants cover a wide range of domestic assistance areas: health, education and social services, community services, and home energy assistance. At the federal level they are administered by the Departments of Health and Human Services and of Education. Appendix II lists the seven block grants studied by GAO and the categorical programs they replaced.

GAO assessed state implementation of the block grants from 1982 to 1984 in 13 states (California, Colorado, Florida, Iowa, Kentucky, Massachusetts, Michigan, Mississippi, New York, Pennsylvania, Texas, Vermont, and Washington), for a total of 91 cases studied. These states accounted for about 46 percent of all 1983 block grant funds and about 48 percent of the nation's population. Although the 13 states represent a diverse cross-section of the country, the results may not be projected to the nation as a whole. However, GAO believes that the results provide a firm foundation to judge how the states implemented the block grants between 1982 and 1984.

Tear Sheet

STATES ADAPTED QUICKLY TO THEIR NEW ROLE

The first 2 years of block grant implementation proceeded relatively smoothly because the 13 states' prior involvement with many of the categorical programs provided an administrative framework for absorbing their new responsibilities with little organizational change. Although reduced federal funding generally accompanied the block grants, the continuing availability of categorical funds, supplemental moneys from the federal emergency jobs legislation, as well as the ability to transfer funds among certain blocks helped promote fiscal stability in most programs. States also used their own funds to help offset federal funding cuts, but as a rule these efforts were restricted to the health and social services block grants, where states had longstanding administrative and financial involvement. (See pp. 1 to 5.)

Public input sought through several forums

As the 13 states considered how to spend block grant funds, they used the federally mandated legislative hearing and comment process to obtain public input. Also, they often initiated executive branch hearings and set up advisory committees, relying heavily on the latter for decision-making purposes. Public participation was further enhanced by the increased involvement of governors and state legislatures and by greater interest group activity at the state level. Although state efforts to obtain public input were extensive, interest groups had mixed views regarding their satisfaction with these efforts. (See pp. 8 to 14.)

Program continuity stressed but changes emerge

In making their initial decisions, states generally emphasized program continuity. Where block grants were one of several funding sources for broader state activities, program decisions were based on the goals of those activities. Decisions were also driven by the continued availability of categorical funds, states' prior involvement, as well as certain legislative

provisions that restricted changes. Although continuity was emphasized, funding patterns did begin to change as states established their own priorities and sought to cope with funding limitations. The changes varied widely among block grants, affecting both program funding levels and service provider operations. (See pp. 5 to 8.)

As they established program priorities, states were implementing their new management responsibilities. To help, the federal government provided technical assistance, which the 13 states generally found useful. However, of greater importance in adjusting to their new role was states' involvement in the prior categorical programs, their ability to use existing administrative systems and procedures, and their established service provider relationships. The one notable exception was community services. All 13 states had little or no involvement with the prior program, and 10 of them had no similar state program. Consequently, a new administrative structure had to be developed, and new relationships had to be cultivated with service providers. (See pp. 14 to 17.)

Many management improvements reported

As block grant implementation proceeded, the 13 states reported widespread management improvements. These focused on reduced time and effort preparing applications and reports, changed or standardized administrative procedures, improved planning and budgeting practices, and better use of staff. However, whether administrative cost savings were realized as a result of the shift in responsibilities and reduced requirements could not be determined due to a dearth of information and numerous measurement problems. (See pp. 17 to 21.)

States embrace block grants but interest groups less enthusiastic

On the broader question of whether the block grant approach to funding domestic assistance was more or less desirable than the categorical approach, 53 percent of the interest groups believed that it was less desirable, while about 30 percent said it was more desirable. These

Tear Sheet

views sharply contrasted with those of governors, state legislative leaders, and state program officials, at least 80 percent of whom believed that the block grant approach was more desirable. (See pp. 21 and 22.)

MANY IMPORTANT DECISIONS LIE AHEAD

The financial and institutional changes prompted by block grants have important long-term implications. Several issues concerning the impact on people served and the appropriate roles of federal, state, and local entities will continue to affect the existing programs and should be considered in deliberating future block grant proposals.

Two of the more prominent issues relate to funding levels and the federal distribution of moneys. The next few years will be pivotal as states and the federal government confront tougher decisions on whether, and to what extent, funds should be contributed to maintain services because of growing pressures on resources and the absence of overlapping categorical funding, which initially helped promote fiscal stability. Also, national strategies for distributing funds may have to be reexamined and updated because certain block grant formulas still distribute funds primarily based on states' share of funds received under the prior categorical programs. (See p. 23.)

Another issue relates to the adequacy of national information available on such subjects as services delivered and clients served. Such information has not been satisfactory; as a result, the Congress strengthened data collection requirements in 1984 for several block grants. Federal agencies' implementation of these provisions will be critical because information on how block grants are affecting services to the people is essential to informed decision making. As states continue making program changes, congressional debate will likely focus on how such changes affect national goals and whether there are alternative ways of promoting federal objectives without inordinately limiting states' flexibility. (See pp. 23 and 24.)

Shifting authority to states focused public and administrative accountability at that government level. Federal public participation requirements in conjunction with states' own public participation methods created multiple opportunities for dialogue between states, local entities, and the public. However, interest groups held mixed views regarding states' efforts and program decisions. Continuing federal minimal public participation requirements would be good for future block grants as long as they do not inhibit the states from developing their own strategies.

Also, great reliance is placed on state procedures rather than federal efforts to oversee block grant expenditures. Therefore, there will be a need to periodically assess how well state systems and procedures are ensuring program accountability. The Single Audit Act of 1984, which created a uniform audit process for all federal assistance programs, will be helpful in that assessment effort. (See p. 24.)

In deliberations on future block grant proposals, the issue of prior state involvement in the programs being considered should be of central concern. Shifting responsibility to states was easier where they had previous program experience and greater reliance could be placed on existing state systems and procedures. The extent of prior involvement should influence the legislative transition provisions used and the federal technical assistance required to ease the transition to block grants. (See p. 25.)

As block grants continue to evolve, GAO intends, at appropriate intervals, to (1) assess the effects of some block grants on people served; (2) review state mechanisms for accountability, including monitoring and auditing processes; (3) research alternative national funding formulas; (4) explore options for obtaining consistent national information; and (5) track state funding in block grant program areas.

Contents

		Page
DIGEST		i
SECTION		
1	MAJOR ISSUES RELATED TO BLOCK GRANT IMPLEMENTATION	1
	States adopt fiscal strategies in response to federal funding changes	1
	States begin to alter program priorities	5
	The public, elected officials, and interest groups provide input	8
	Interest groups divided in assessment of state actions	12
	New management role generally implemented through established state processes and procedures	14
	Management improvements widespread but cost savings cannot be quantified	17
	Divergent views on desirability of block grants	21
2	MANY IMPORTANT DECISIONS LIE AHEAD	23
	Funding levels and national allocation procedures will remain prominent issues	23
	Better data needed to assess program changes and services delivered	23
	State/local dynamics will continue to affect public and administrative accountability	24
	Prior involvement a key ingredient	25
	Future GAO efforts to focus on funding and oversight	25
APPENDIX		
I	Series of GAO reports on the implementation of block grants created by the Omnibus Budget Reconciliation Act of 1981	26
II	Listing of categorical programs consolidated into block grants under the Omnibus Budget Reconciliation Act of 1981	27

Page

ILLUSTRATIONS

Total appropriations for the seven block grants and prior categorical programs (1981-1985) 1

Comparison of block grant and categorical expenditures for the three health block grants (1982-1983) 3

Millions of dollars transferred by 13 states among block grants in years 1982 and 1983 4

Percent of cases with increased total expenditures for health and social services block grants between 1981 and 1983 (before and after inflation adjustments) 5

Forums available for public input into block grant decisions 9

Change in gubernatorial and legislative involvement with block grants compared to categorical programs 10

Interest group interaction with state program officials and legislators under block grants compared to categorical programs 11

Interest group views about state public hearing process 12

Interest group views about state efforts to solicit comments on intended use reports 12

Interest group satisfaction with states' responses to funding issues of great concern 13

Number of states devoting less time and effort to applications and reports 18

Number of states that made planning and budgeting improvements 20

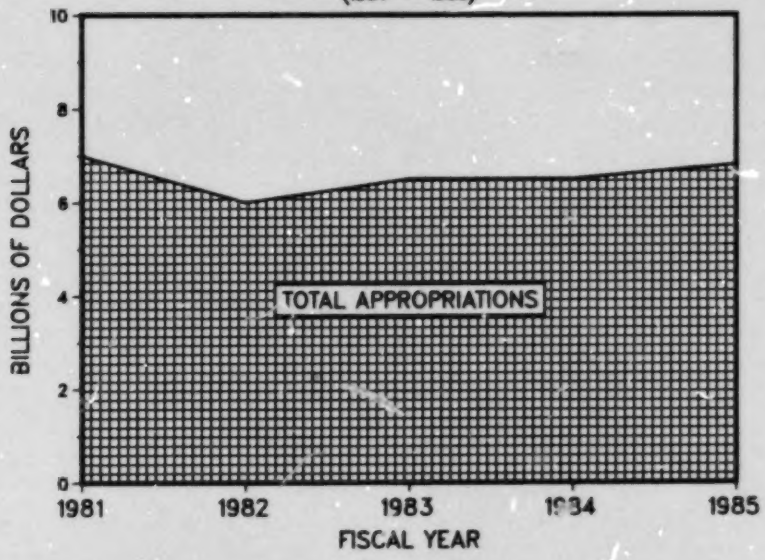
Opinions about the desirability of block grants compared to the categorical method 22

SECTION 1: MAJOR ISSUES RELATED TO BLOCK GRANT IMPLEMENTATION

STATES ADOPT FISCAL STRATEGIES IN RESPONSE TO FEDERAL FUNDING CHANGES

Block grants were usually accompanied by federal funding levels less than those provided under the prior categorical programs. As shown in chart 1, total appropriations for the seven block grants in 1982 were about $6 billion--or 15 percent below the 1981 categorical levels. In subsequent years, however, appropriations were increased, and additional funds were made available in 1983 under the Emergency Jobs Appropriations Act.

CHART 1
TOTAL APPROPRIATIONS FOR THE SEVEN BLOCK GRANTS AND PRIOR CATEGORICAL PROGRAMS
(1981 — 1985)



WITH THE ADVENT OF BLOCK GRANTS IN 1982, TOTAL FEDERAL APPROPRIATIONS DECREASED FROM $7 BILLION TO $6 BILLION. ALTHOUGH APPROPRIATIONS HAVE INCREASED SINCE 1982, TOTAL FEDERAL FUNDING HAS NOT REACHED THE CATEGORICAL LEVEL OF 1981.

Changes in federal funding levels for the block grants varied considerably. Low-income home energy assistance was the only block grant to receive increased appropriations every year during the 1982-85 period. Of the remaining six block grants, only maternal and child health experienced increases in federal funding over this period above the 1981 categorical level. Federal funding for the other five block grants has remained from 1 to 29 percent below categorical levels.

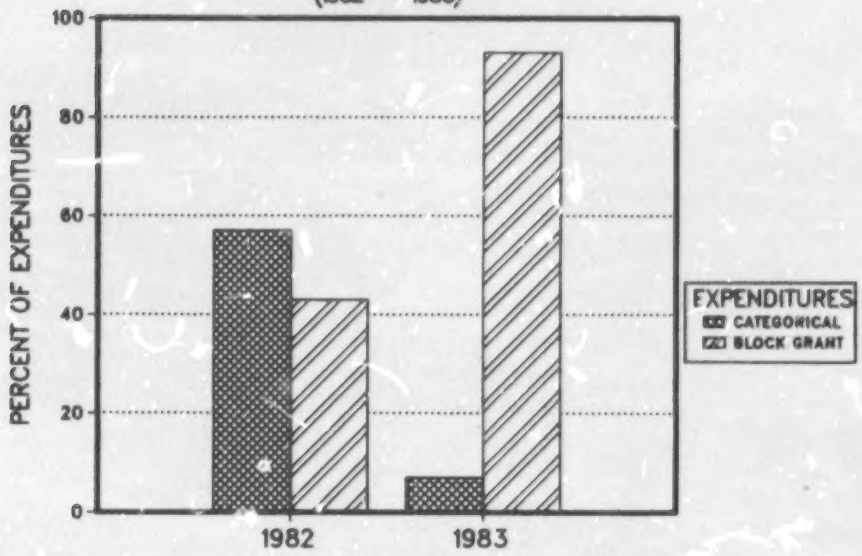
Three strategies that emerged during 1982 and 1983 mitigated the initial federal funding reductions. These involved states (1) taking advantage of available funds from the prior categorical programs, (2) transferring funds among block grants, and (3) increasing state funds. However, the applicability and use of these strategies varied greatly by block grant.

Categorical outlays mitigate initial funding reductions

State and local service providers in the 13 states were able to operate certain block grant programs well into fiscal year 1982 with 1981 categorical funds. This was possible because many prior categorical grants were project grants awarded to states and other entities at various times during fiscal year 1981, and many extended into fiscal year 1982.

Chart 2 illustrates the significant impact of categorical funding on programs supported by the three health block grants. In the 13 states, at least 57 percent of the 1981 categorical awards extended into 1982. Consequently, categorical outlays comprised over half of total 1982 categorical and block grant expenditures for those states operating the health block grants during that year. Although few categorical funds were being expended by 1983, they had enabled states to reserve block grant funds for future years.

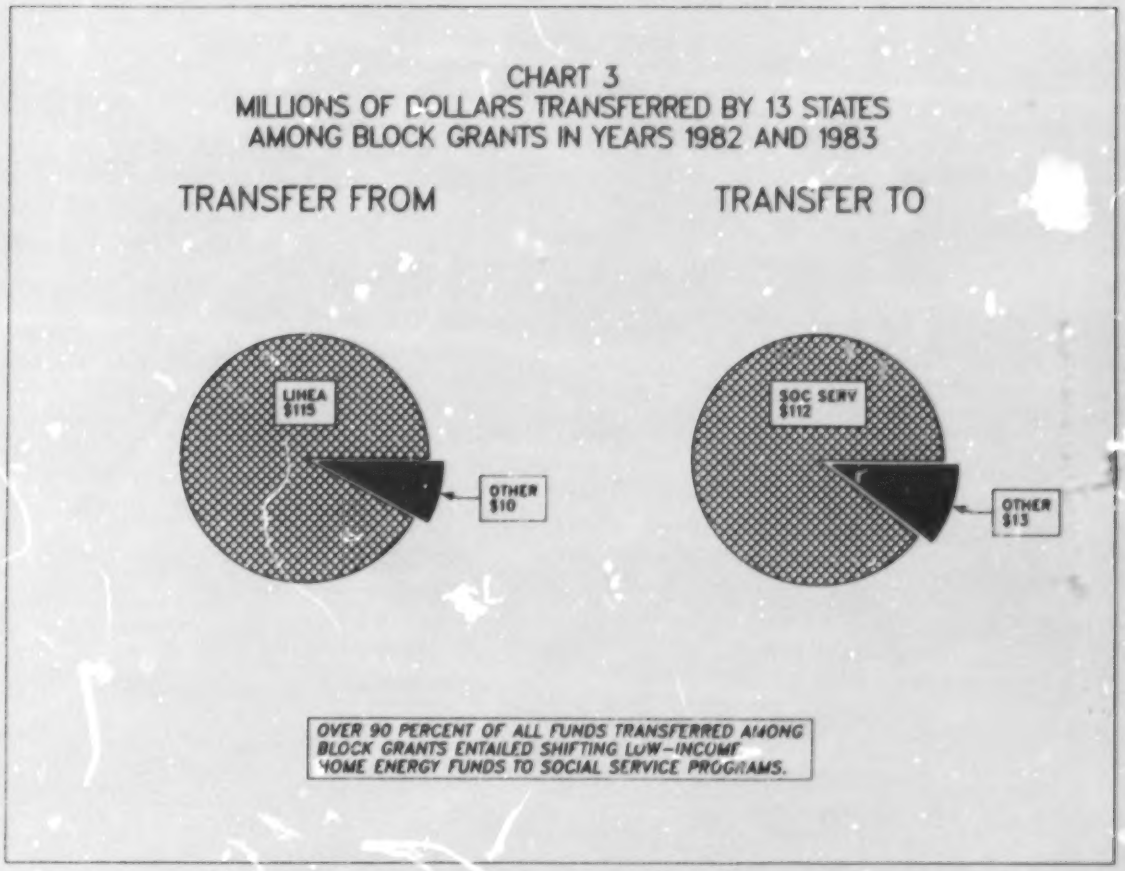
CHART 2
COMPARISON OF BLOCK GRANT AND CATEGORICAL EXPENDITURES FOR THE THREE HEALTH BLOCK GRANTS
(1982 — 1983)



IN THE YEAR FOLLOWING BLOCK GRANT IMPLEMENTATION CATEGORICAL EXPENDITURES WERE A MAJOR FACTOR IN FUNDING FOR THE THREE HEALTH BLOCK GRANTS.

Energy funds often transferred to social services

The 13 states transferred a combined total of about $125 million among the block grants in 1982 and 1983. However, this option was used primarily to shift funds from the low-income home energy assistance block grant to the social services block grant, as shown in chart 3. This trend was influenced by the fact that the social services block grant experienced the largest dollar reduction and did not benefit from overlapping categorical funding, while the low-income energy block grant received increased federal appropriations.



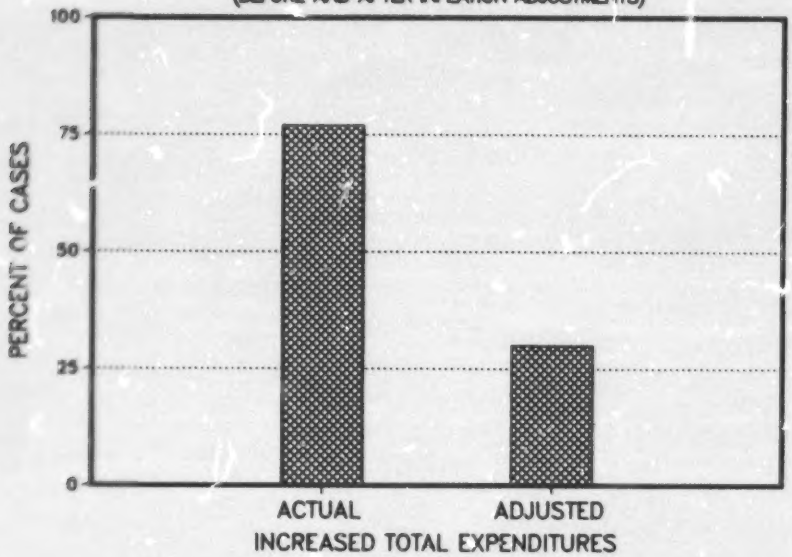
State funding selectively increased

States also used their own funds to help offset reduced federal funding, but only for certain block grants. Most of the 13 states did not use state funds in 1982 or 1983 to help support programs funded by the community services, education, and low-income home energy assistance block grants. During this same period, however, the 13 states usually increased their contribution to programs supported by the health and/or social services block grants, although the size of such increases varied greatly from state to state.

This rise in state support, along with the overlapping categorical funding in the health block grants and the transfer of low-income home energy assistance funds into social services, led to increases in total program expenditures between 1981 and 1983 in about three-fourths of the cases in the 13 states, as

shown in chart 4. However, once the growth in total expenditures was adjusted for inflation, this number dropped markedly.

CHART 4
PERCENT OF CASES WITH INCREASED TOTAL EXPENDITURES FOR HEALTH AND SOCIAL SERVICES BLOCK GRANTS BETWEEN 1981 AND 1983
(BEFORE AND AFTER INFLATION ADJUSTMENTS)



FOR THE HEALTH AND SOCIAL SERVICES BLOCK GRANTS THREE-QUARTERS OF THE CASES EXPERIENCED INCREASED EXPENDITURES OVER CATEGORICAL LEVELS. HOWEVER, AFTER ADJUSTING FOR INFLATION ONLY 30 PERCENT SHOWED INCREASED EXPENDITURES.

STATES BEGIN TO ALTER PROGRAM PRIORITIES

Block grants reduced the federal role in several domestic assistance areas and gave states discretion to determine needs, set priorities, and fund activities within broadly defined areas. Under block grants, states receive the funds, whereas several of the prior categorical programs involved some direct federal to local funding. Additionally, states select recipients and establish programmatic requirements, whereas under many of the prior programs, federal agencies performed these functions. Although states have greater discretion, certain block grants contain restrictions that affect fund allocation.

Program continuity emphasized but changes emerge

Overall, program areas funded under the categorical grants continued to receive support during the first 2 years. Efforts to maintain program continuity were aided by states' prior involvement in the categorical programs as well as the continued availability of categorical funds during block grant implementation. Also, in certain program areas, legislative requirements that continued funding for specific programs and grantees restricted states' ability to initiate changes.

While program continuity was evident, changes in funding patterns began to emerge as states sought to establish their own priorities and cope with limitations on available funds. As a result, levels of funding to program areas were adjusted or new distribution formulas developed. The extent and type of changes, however, varied among the block grants. The major patterns that emerged during 1982 and 1983 are highlighted below.

- Under the maternal and child health and the preventive health block grants, the 13 states tended to provide more support for program areas over which they formerly had greater control, such as crippled children's services and fluoridation, and relatively less support for areas which used to be primarily federally controlled or mandated, such as lead-based paint poisoning prevention and emergency medical services.

- Although changes varied considerably by state under the social services block grant, the 13 states usually gave a higher priority to adult and child protective services, adoption and foster care, home-based services, family planning, and employment, education, and training. Many states also tightened eligibility standards for day care services and decreased expenditures for a wide range of other services.

- Under the community services block grant, 9 of the 13 states introduced new methods for distributing funds that included poverty-based factors. Such changes and the substantial decrease in federal assistance led to funding changes for many service providers in the 13 states; over 90 percent that received funds in 1981 had their funding reduced in 1983.

- While heating assistance remained the major program activity under the low-income home energy assistance block grant, heating expenditures tended to decline as most of the 13 states increased funding for weatherization and

crisis assistance, transferred funds to other block grants, and carried over energy funds into the next year.

- oProgram changes were less evident in the alcohol, drug abuse, and mental health block grant in part due to legislative provisions controlling the allocation of funds among the three program areas.

- oUnder the education block grant, states were required to pass on at least 80 percent of their allocation to local education agencies, which have virtually complete control over the use of these funds. Thus, state authority was limited to deciding how to use the remaining 20 percent, and state program officials reported that funds retained by the states were generally used to support activities similar to those funded under the prior categorical programs. We estimated that over 50 percent of the funds used by local education agencies funded in the 13 states were spent on instructional materials and equipment.

Wide variety of changes at service providers

While the 13 states were deciding how to adjust program priorities, the 230 local service providers where we made on-site visits were experiencing a wide variety of changes. These providers were diverse in their organization, funding sources, services offered, and reliance on block grant funding. Providers attributed certain changes to block grant implementation, but most pointed to a diverse array of factors influencing their operations, such as escalating costs and changing local needs. The following summary relating to the community services block grant illustrates the variety of adjustments made by local providers and the various interrelated factors that affect program direction and service delivery.

Over three-quarters of the 47 community services providers we visited received less federal community services funds in 1983 than in 1981, although only half experienced a decline in total funding from all sources. Typically, federal community services funding declined as a percentage of providers' total funding. Many providers took steps to compensate for reduced funds. Twenty-nine developed alternative funding sources, such as charging fees, soliciting private contributions, and/or seeking other federal funds. Fifteen said they increased the use of volunteers.

Providers also said that changes in funding frequently contributed to operational changes. About 70 percent reported reduced staffing levels and/or organizational changes, slightly

over 40 percent noted decreases in service delivery methods, and almost 60 percent reported reducing or eliminating services. However, discerning the block grant's impact was often difficult because providers depended on community services funding to varying degrees, client needs and local economic conditions changed, and funding from other sources fluctuated.

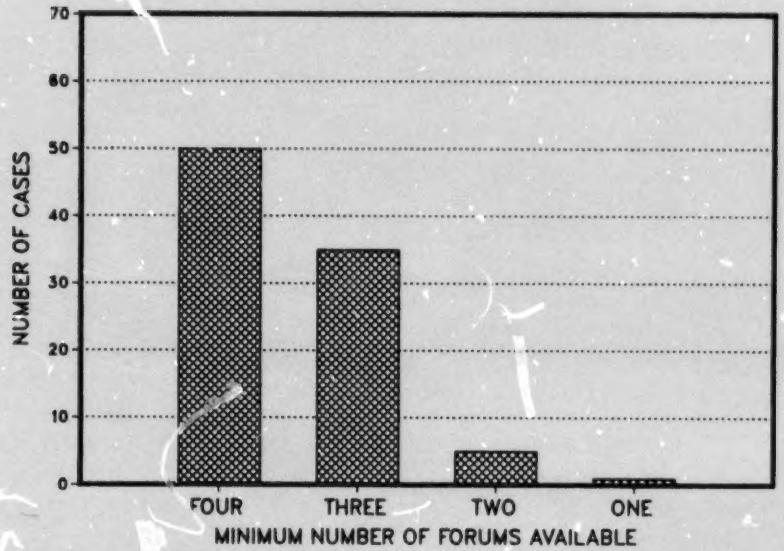
THE PUBLIC, ELECTED OFFICIALS, AND INTEREST GROUPS PROVIDE INPUT

The issue of whether states would involve the public in decisions on how to spend block grant funds prompted the Congress to require states to provide opportunities for public involvement. This public accountability process was to be a fundamental check on states and stand in place of a strong federal oversight role. While there are variations among the block grants, the 1981 act generally requires states to offer one or two types of opportunities. The most common is included in six block grants and requires states to solicit public comments on their plans or reports describing the intended use of funds. Four block grants also require that a public hearing be held on the proposed use and distribution of funds, in three instances specifically by the state legislature. Only the education block grant requires states to establish an advisory committee.

States use more forums than required

As shown in chart 5, the 13 states not only used the federally mandated forums, but also provided other forums to foster public involvement during the annual decision-making process.

CHART 5
FORUMS AVAILABLE FOR PUBLIC INPUT INTO
BLOCK GRANT DECISIONS



IN 93 PERECENT OF [illegible] CASES STUDIED, STATES PROVIDED AT LEAST [illegible] DIFFERENT FORUMS FOR PUBLIC INPUT INTO THE BLOCK GRANT PROCESS.

Multiple forums were important because executive and legislative hearings, intended use reports, and advisory groups each attracted a different mix of participants. For example, service providers were frequent participants in all forums, whereas private citizens participated in 80 percent of executive branch hearings and were represented on 71 percent of the advisory groups, but commented on intended use reports or attended legislative hearings far less often--47 and 46 percent, respectively. Differing levels of participation were also noted among other groups, such as local governments, minorities, the handicapped, the elderly, and other advocacy groups.

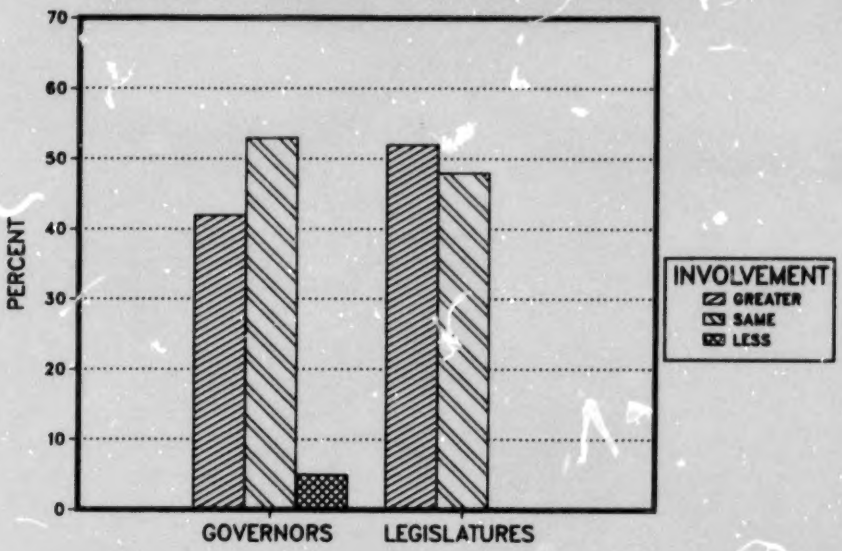
The different forums were also important because they focused on different issues. For example, the need to increase or maintain funding for specific protected groups (e.g., minorities and handicapped) was cited as a great concern during executive hearings in 41 percent of the cases compared to 28 percent or less through other forums. Administrative and eligibility issues tended to arise more frequently through advisory groups.

While state program officials obtained input from both mandated and self-initiated forums, they relied more heavily on advisory groups for decision making. States reported making program decisions in response to advisory committee recommendations in 68 percent of the cases. Executive and legislative hearings were the other source that state officials said led to specific decisions in more than half of the cases.

Elected officials increase involvement

State program officials reported that many governors and legislatures were also more involved in program decisions for block grants than they were under the prior categorical programs, as shown in chart 6.

CHART 6
CHANGE IN GUBERNATORIAL AND LEGISLATIVE INVOLVEMENT WITH BLOCK GRANTS COMPARED TO CATEGORICAL PROGRAMS



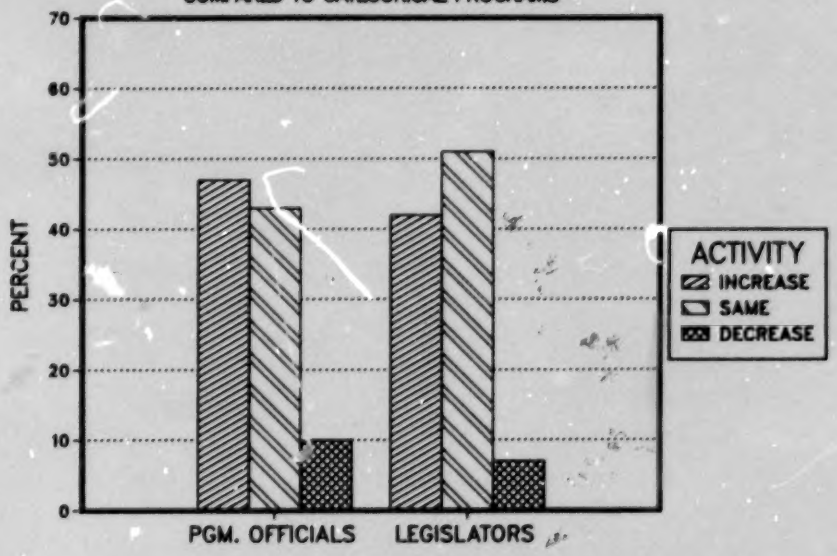
GUBERNATORIAL AND LEGISLATIVE PROGRAM INVOLVEMENT HAS SIGNIFICANTLY INCREASED UNDER BLOCK GRANTS AS COMPARED WITH CATEGORICAL PROGRAMS. IN ABOUT HALF OF THE CASES, GOVERNORS AND LEGISLATURES HAVE REPORTED INCREASED INVOLVEMENT.

While legislatures in many states had been increasing their oversight of federal funds before 1981, block grants accentuated this trend. In fact, block grants were being accorded the same or greater levels of attention as state programs in about 82 percent of the cases for governors and 65 percent of the cases for legislatures.

Interest groups increase state level activity

Many interest groups also reported being more active under the block grant approach at the state level than under the prior categorical programs, as shown in chart 7. Much of the increased activity occurred among existing rather than newly established interest groups.

CHART 7
INTEREST GROUP INTERACTION WITH STATE PROGRAM OFFICIALS AND LEGISLATORS UNDER BLOCK GRANTS COMPARED TO CATEGORICAL PROGRAMS



A SIGNIFICANT PORTION OF THE INTEREST GROUPS INDICATED THAT THEIR LEVEL OF ACTIVITY WITH STATE PROGRAM OFFICIALS AND STATE LEGISLATORS HAS INCREASED WITH THE ADVENT OF BLOCK GRANTS.

INTEREST GROUPS DIVIDED IN ASSESSMENT OF STATE ACTIONS

As shown in table 1, the interest groups that responded to our survey in the 13 states had mixed views regarding their satisfaction with different aspects of state executive and legislative hearing processes. They tended to be more satisfied with hearing convenience and time allotted to block grants, but less satisfied with information available beforehand and the timing of hearings.

Table 1

Interest Group Views About State Public Hearing Process

	Percent satisfied	Percent neutral	Percent dissatisfied
Time of day, location of hearing	54	20	26
Time allotted to block grants at hearings	53	26	21
Degree of advance notice	45	14	41
Number of hearings	44	22	34
Time of hearing relative to state decisions	34	19	47
Information available before hearings	32	17	51

Similarly, their views were split regarding state efforts to solicit comments on intended use reports, as shown in table 2. They were slightly more satisfied with availability of intended use reports and length of the comment period, but less satisfied with the timing of the comment period in relation to program decisions.

Table 2

Interest Group Views About State Efforts to Solicit Comments on Intended Use Reports

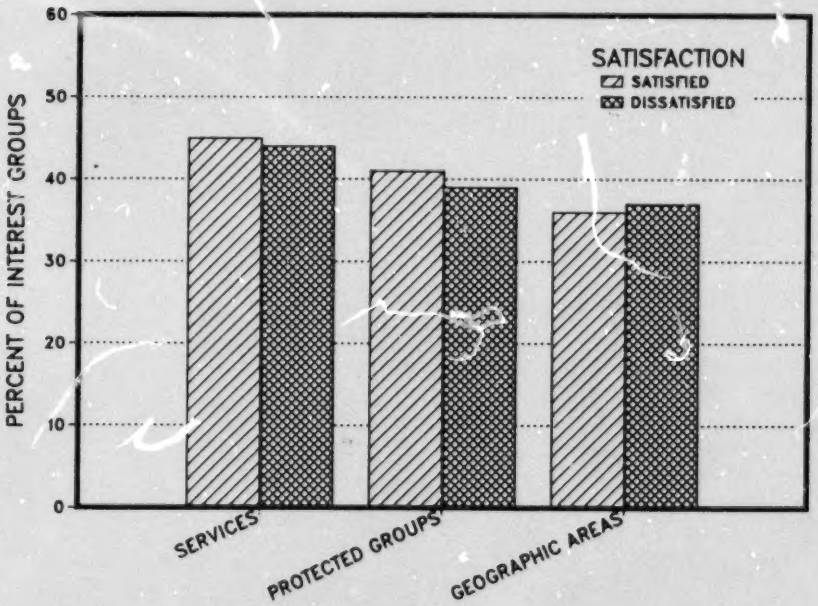
	Percent satisfied	Percent neutral	Percent dissatisfied
Report availability	43	20	37
Length of comment period	42	25	33
Timing of comment period	35	21	44

Interest groups showed slightly more consistency in their views regarding state advisory groups. Forty-five percent were satisfied with the role of advisory committees, while 34 percent were dissatisfied. Forty-seven percent were satisfied with their composition, while 31 percent were dissatisfied.

Mixed views on program decisions

Three issues of great concern to interest groups were the need to maintain or increase funding for specific services, for geographic areas within the state, and for services to protected groups. Program officials generally told us that they perceived a great deal of concern about these three issues during executive branch hearings. As chart 8 illustrates, the interest groups were split in their assessment of states' actions to maintain or increase funds for specific services, protected groups, and geographic areas.

CHART 8
INTEREST GROUP SATISFACTION WITH STATES' RESPONSES TO FUNDING ISSUES OF GREAT CONCERN



THE LEVEL OF INTEREST GROUP SATISFACTION WAS EVENLY DIVIDED REGARDING STATE ACTIONS TO MAINTAIN OR INCREASE FUNDS IN THREE AREAS OF GREAT CONCERN.

Interest group characteristics help explain divergent views

Interest group characteristics related to their method of operation and constituent groups, as well as their perceptions about block grants, help explain some of the differences in their levels of satisfaction with state processes and decisions.

- oInterest groups that actively participated in hearings, commented on intended use reports, etc., were generally less critical of state processes than groups not actively involved.

- oInterest groups representing individuals were generally more dissatisfied with state processes than those representing government officials or agencies, for-profit and/or nonprofit organizations.

- oState-level interest groups were generally more satisfied than county-level groups with state processes and decisions.

- oInterest groups that included ethnic minorities among those they represented were generally more dissatisfied than other groups with both state processes and decisions.

- oInterest groups that generally found block grants more desirable than categorical grants and/or perceived that state decisions on block grants favorably affected those they represented were more satisfied with state efforts to solicit public input.

NEW MANAGEMENT ROLE GENERALLY IMPLEMENTED THROUGH ESTABLISHED STATE PROCESSES AND PROCEDURES

Block grants shifted management responsibility from the federal government to states. Federal policy has been to maximize states' discretion, and traditional federal management activities, such as detailed review and approval of state applications, have been curtailed. Instead, great reliance is placed on states' own systems and procedures to manage programs and ensure accountability. It was expected that states would implement the programs consistent with their own priorities and use their flexibility to better coordinate service delivery with related state programs.

Planning usually integrated with normal processes

The extent to which block grant planning was integrated into normal state processes depended primarily on the level of state financial commitment to the program areas. In most cases, decisions on the use of social services, health, and the state portion of the education block grant funds were developed concurrently with, or reflected, goals established for broader state programs. Typically, block grant funds are viewed as one of several funding sources supporting state programs, rather than as a separate activity. As a result, plans for these block grants are either derived from, or intertwined with, basic allocation decisions made during the states' normal budgetary or decision-making process.

In contrast, the 13 states generally set priorities separately for the community services and low-income energy block grants. In most states, these are distinct programs solely supported with federal funds. As a result, planning also tends to be done separately.

Prior involvement limits changes

Although the block grants expanded states' management role, the 13 states did not have to make major organizational changes to accommodate their new responsibilities for most block grants. This reflects states' longstanding involvement in administering many of the prior categorical programs and their substantial financial commitment to related state programs. Also, to a large extent, states already had service delivery networks in place to implement the social services, health, low-income energy, and education programs.

States' prior experience in many programs preceding the health, social services, and energy block grants also limited the need for states to change their monitoring efforts. States often had ongoing relationships with service providers as well as established rules and regulations, and monitoring was usually done jointly with related federal and state programs. As a result, state program officials generally reported that the level of effort devoted to monitoring had not changed for most block grants.

Community services poses challenges

Unlike with the other block grants, the 13 states had to make substantial adjustments to assume management responsibility for community services, primarily due to their lack of prior experience. They had little or no involvement with the predecessor categorical programs, and most did not support comparable state

activities. Consequently, states had to develop a new administrative structure and cultivate relationships with service providers.

Broader state audits cover block grants

The 1981 block grant legislation required states to obtain independent financial and compliance audits of block grant funds. At the state level, these audits were usually conducted as part of department-wide single audits of all federal and state funds. Such single audits were encouraged to be performed through administrative requirements of the Office of Management and Budget.

States had expressed concerns that differences in audit scope and frequencies between block grant audit requirements and federal single audit guidance created uncertainties and complicated the development of their audit strategies. However, the 1984 Single Audit Act (Public Law 98-502) replaced these differing federal requirements, including those pertaining to block grants. It established a uniform single audit requirement which covers the financial statements and internal controls of the entire state or local government and each of its agencies administering federal funds, as well as their compliance with key federal program requirements. Specifically, the act addresses key areas where states had concerns about block grant auditing. For example, it

--replaces the differing audit timetables established for several block grant programs with an annual audit requirement, except for jurisdictions whose constitutions or statutes require less frequent audits;

--provides some criteria for compliance testing on transactions from major federal programs depending upon the size of their contribution to total federal funds expended by the government;

--outlines guidelines for states' responsibility to oversee subrecipients' audits based on the amount of funds provided to subrecipients; and

--directs the Office of Management and Budget to establish criteria for determining the appropriate federal share of audit costs.

Once properly implemented, the act should simplify the auditing of block grant funds.

The Congress strengthens data requirements

Consistent with the administration's philosophy of minimal federal involvement, states were given great discretion to determine the form and content of block grant data collected and reported. Although federal requirements were eased, the 13 states generally reported that they were maintaining their prior level of effort for data collection. However, they were tailoring their efforts to better meet their own planning, budgetary, and legislative needs.

Because federal agencies did not require uniform national reporting by states, the information collected and reported on such items as services delivered and clients served was not consistent or satisfactory to address key national concerns about block grant programs. As a result, in 1984 the Congress acted to require the systematic collection of more uniform national data on five of the block grant programs.

Although national reporting standards may entail some loss of state flexibility, in the long run they should help promote program stability and assist the Congress in overseeing the block grants.

Technical assistance requests change

Although states were delegated principal management responsibility, assistance from the federal government still proved helpful during block grant implementation. More than half of the state program officials initially asked for federal assistance. Generally, state officials believed that federal responses were helpful. However, federal agencies would not further clarify or interpret certain statutory requirements. This lower federal profile produced mixed reactions by state officials, ranging from a resounding welcome to the new hands-off policy to a reluctance to depart from categorical rules for fear of later being second-guessed by federal officials.

As block grant implementation evolved over the 2 years, states' needs for technical assistance diminished and changed in character. While initial requests centered on block grant applications, reporting, and statutory restrictions, needs for additional assistance concerned auditing requirements, practices in other states, and data questions.

MANAGEMENT IMPROVEMENTS WIDESPREAD BUT COST SAVINGS CANNOT BE QUANTIFIED

A major objective of block grants was to promote management improvements by reducing federal requirements. This, together

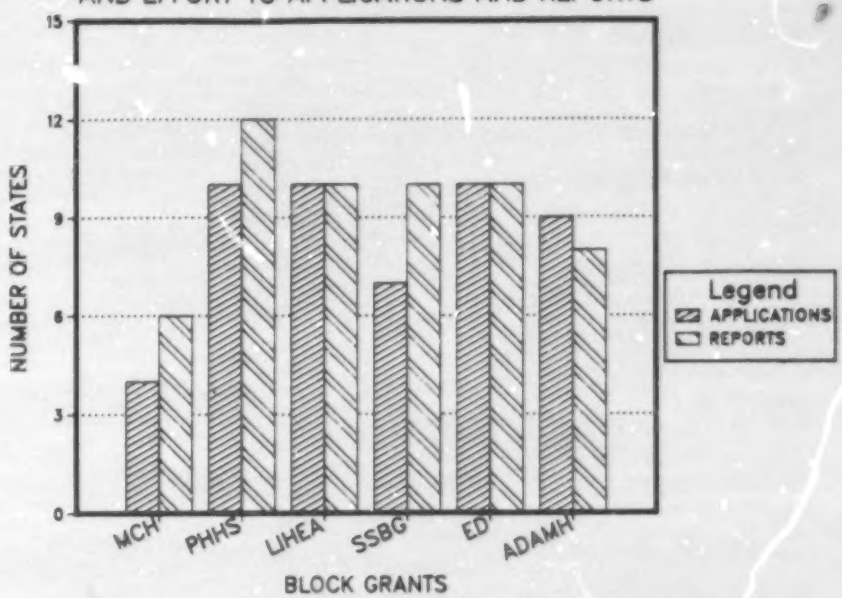
with the consolidation of categoricals and the ability to better integrate program planning and service delivery, was expected to achieve administrative cost savings sufficient to offset some of the funding cuts accompanying most block grants.

Application and reporting burden reduced

Block grants carried with them significantly reduced federal application and reporting requirements. Under the categorical programs, states had to comply with specific procedures for each program. The block grants provide discretion to fulfill broader requirements using established state procedures or other more suitable approaches.

As shown in chart 9, program officials in most states reported devoting less time and effort to preparing applications for block grant funds or reporting to the federal government than they had for the prior categorical programs.

CHART 9
NUMBER OF STATES DEVOTING LESS TIME AND EFFORT TO APPLICATIONS AND REPORTS



LESS TIME AND EFFORT WAS REPORTEDLY SPENT PREPARING APPLICATIONS IN 64 PERCENT OF THE STATES AND REPORTING TO THE FEDERAL GOVERNMENT IN 73 PERCENT OF THE STATES.

The block grants' flexibility prompted state program officials in 66 percent of the cases to change administrative procedures or standardize them across block grants. Areas frequently affected were application, reporting, data collection, and other administrative procedures. For example:

--Massachusetts brought all former directly funded grantees in the preventive health area under state purchasing regulations and cost reimbursement practices.

--Michigan eliminated certain federal reports no longer required under the social services block grant and not considered useful to the state.

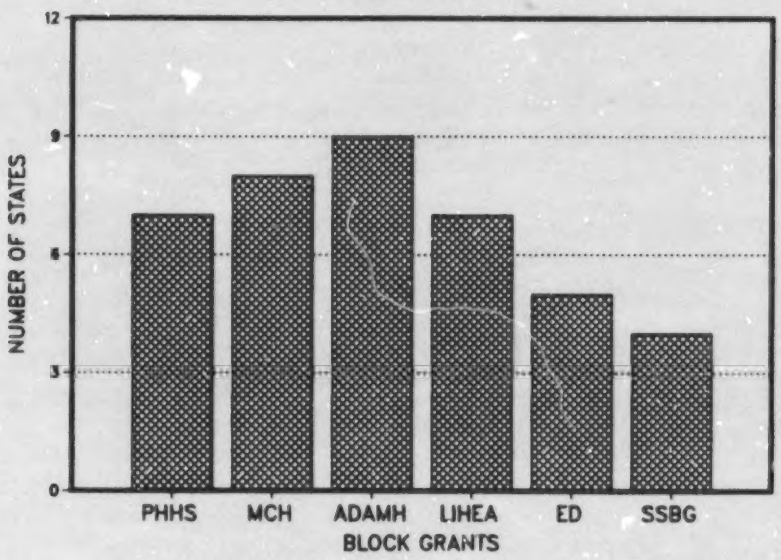
--Washington said that the block grants were one of several factors behind its efforts to standardize the financial reporting system for the maternal and child health and preventive health block grants.

Although considerable efforts were directed at administrative simplification at the state level, states generally did not pass on such simplification to the local level. Most of the 13 states imposed requirements on service providers in addition to the federal requirements, such as matching state funds and obtaining state approval for certain actions like hiring and procurement. Also, in some instances, program managers as well as state legislatures added administrative requirements specifically to improve program accountability. Such actions tended to emphasize increased data collection and reporting by service providers.

Improved planning and staff use

The block grants enabled many states to improve planning and budgeting and the use of state personnel. As shown in chart 10, program officials reported making improvements in planning and budgeting in half of the cases. The types of improvements cited included better integration of the management of related federal and state funded programs and greater flexibility in determining the use of funds.

CHART 10
NUMBER OF STATES THAT MADE PLANNING
AND BUDGETING IMPROVEMENTS



UNDER BLOCK GRANTS, PLANNING AND BUDGETING IMPROVEMENTS WERE REPORTED IN 51 PERCENT OF THE CASES.

States in 33 percent of the cases also reported making improvements in the use of state personnel directly as a result of the block grants. Typically, state staff is now able to devote less time to satisfying federal administrative requirements and more time to program activities.

Administrative cost savings cannot be quantified

While it is clear that states have taken on increased management responsibilities and realized considerable administrative simplification under the block grants, it is not clear whether, and to what extent, these changes translated into reduced administrative costs. The absence of a common definition of administrative cost, the lack of adequate current and prior cost data, differing state computation procedures, and the fact that block grant funds are often commingled with other funds in support of broader programs precluded measuring changes in state administrative costs. These problems are not unique to block grants, but

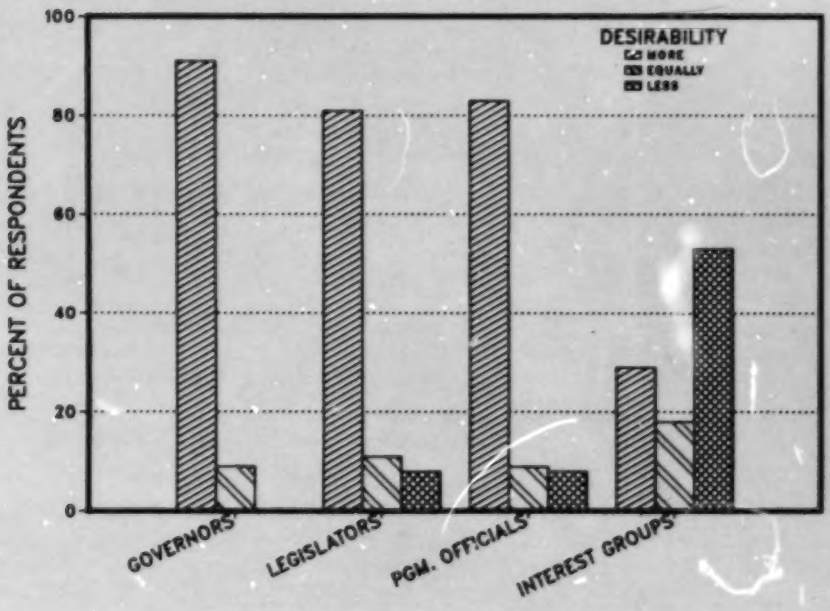
rather have their foundation in the inherent difficulty of trying to correlate data from a myriad of different systems where several levels of government are involved in program administration.

Consequently, claims of savings related to block grants will remain difficult to prove or disprove, and the Congress may have to look to individual perceptions and other less precise measures of administrative efficiency. The perceptions of state program officials who have had the greatest contact with administering both the block grants and the prior categoricals tended to support the notion that although block grants have simplified some areas of administration, they have brought added responsibilities in others, and the specific impact cannot be quantified.

DIVERGENT VIEWS ON DESIRABILITY OF BLOCK GRANTS

Overall, state officials and interest groups held sharply different opinions about the desirability of the block grant approach, as shown in chart 11. State executive and legislative officials overwhelmingly viewed block grants as more desirable than the prior categorical approach. Also, they found that overall block grants offered increased flexibility and were less burdensome. In contrast, most interest groups preferred the prior categorical approach over block grants, although about 30 percent did rate block grants as a more desirable option.

CHART 11
OPINIONS ABOUT THE DESIRABILITY OF BLOCK GRANTS
COMPARED TO THE CATEGORICAL METHOD



STATE OFFICIALS GREATLY FAVORED THE BLOCK GRANT APPROACH, WHILE MOST OF THE INTEREST GROUPS PREFERRED THE CATEGORICAL PROGRAMS.

While interest groups and state officials had differing views, both expressed concern about funding. In our opinion, it was often difficult for individuals to separate block grants--the funding mechanism--from block grants--the budget-cutting mechanism. Accordingly, officials in several states experiencing funding cuts commented that the advantages of their expanded flexibility were somewhat diminished by the reduced federal funding. Likewise, several interest groups were concerned about the implications that reduced funding held for the organizations and individuals they represented.

SECTION 2: MANY IMPORTANT DECISIONS LIE AHEAD

Although the first 2 years of implementation proceeded relatively smoothly, the financial and institutional changes promoted by block grants have several long-term implications. These include the effect on people served through block grant funded programs and the appropriate roles of federal, state, and local entities in policymaking and providing public services. We believe that the following issues will continue to affect block grants and should be considered in deliberating future block grant changes and new proposals.

FUNDING LEVELS AND NATIONAL ALLOCATION PROCEDURES WILL REMAIN PROMINENT ISSUES

The first few years of block grant implementation were characterized by unique circumstances that promoted more fiscal stability than would otherwise have been possible given the reductions in federal funding. While these circumstances bolstered funding, program expenditures have typically not kept pace with inflation, and states may face rising program costs and increased demand for services. Consequently, the next few years will be pivotal because states and the federal government will be confronted with tougher decisions on whether, and to what extent, funds should be contributed to maintain program services. As pressure on public resources continues, this issue is likely to loom larger.

Although some modifications have been made, certain block grant programs still distribute funds to states based primarily on their share of funds received under the prior categorical programs. Accordingly, current distribution formulas are not sensitive to recent changes in population or other need indicators. Pressure will likely increase to reexamine national allocation strategies.

BETTER DATA NEEDED TO ASSESS PROGRAM CHANGES AND SERVICES DELIVERED

Since block grant implementation, consistent national information on such items as program changes, services delivered, and clients served has not been available to meet the Congress' needs. The Congress acted in 1984 to require the collection of some additional data. How these legislative provisions are implemented by the federal administering agencies will be critical for the following reasons.

Although program changes have begun for most block grants, states have not drastically departed from the prior programs. However, for fiscal and other reasons, states will continue

making changes. As changes become more widespread, the Congress will want information on how they affect national objectives. If changes are not viewed as appropriate, debate will increase on alternative ways of striking an appropriate balance between national objectives and state discretion.

Also, as fiscal pressures continue and states begin instituting more program changes, interest in how block grants are affecting services to the people will heighten. Our visits to local service providers showed that a wide variety of changes were taking place and many factors in addition to block grants, such as changing community needs, affected services to people. While sorting out these factors will be formidable, information on program outcome will be needed so that states and the Congress can make informed decisions.

STATE/LOCAL DYNAMICS WILL CONTINUE TO AFFECT PUBLIC AND ADMINISTRATIVE ACCOUNTABILITY

Shifting management authority to states created the need for an increased dialogue among states, local entities, and the public. Federal public participation requirements, in conjunction with states' own methods, stimulated dialogue between states and their constituencies by providing multiple opportunities for public involvement in block grant decisions and creating settings where different degrees of emphasis were placed on a wide variety of issues. Continuing federal minimal requirements without inhibiting states from devising strategies or using forums better suited to their own decision-making processes would be beneficial for future block grants and should help promote continued or increased dialogue.

Also, great reliance is now placed on state procedures and independent audits of block grant expenditures for administrative accountability. Federal requirements and agencies' involvement have been kept to a minimum; however, states generally have not passed on discretion to local entities primarily because of accountability concerns. While states have administrative systems and audit processes in place to oversee block grants, there is a need to periodically assess how well those systems and processes are ensuring program accountability. Of particular importance will be efforts to implement the Single Audit Act of 1984, which created a new uniform audit process for all federal assistance programs, including block grants, at the state and subrecipient levels.

PRIOR INVOLVEMENT A KEY INGREDIENT

While all the above areas need to be addressed when considering proposals for future block grants, the issue of prior program involvement should be of central concern. Shifting responsibility to states was easier where they had previous experience with programs and providers. In these situations, states subsumed most block grants within existing organizations and oversight systems with little changes.

The absence of prior state involvement in or commitment to a program area does not necessarily mean that a state would be unable to administer a program effectively. But the Congress should be aware that the transition to state administration in such cases might not be as smooth in terms of both managing the programs and maintaining relatively similar program emphases as it was for most of the programs that became block grants in 1981. In the absence of prior state involvement, the Congress should ensure that states are given enough time to establish a management structure, to devise a system for obtaining numerous viewpoints concerning policy and funding matters, and to develop relationships with localities and service providers. In addition, specific federal technical assistance may be needed to ease the transition from direct federal to state management.

FUTURE GAO EFFORTS TO FOCUS ON FUNDING AND OVERSIGHT

As block grants continue to evolve, we will focus on how well existing block grants are meeting their objectives. At appropriate intervals, we intend to (1) assess the effects of some block grants on people served; (2) review state mechanisms for accountability, including monitoring and auditing processes; (3) research alternative national funding formulas; (4) explore options for obtaining consistent national information; and (5) track state funding in block grant program areas.

SERIES OF GAO REPORTS ON THE IMPLEMENTATION OF BLOCK GRANTS CREATED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981

States Are Making Good Progress in Implementing the Small Cities Community Development Block Grant Program (GAO/RCED-83-186, Sept. 8, 1983)

Maternal and Child Health Block Grant: Program Changes Emerging Under State Administration (GAO/HRD-84-35, May 7, 1984)

States Use Added Flexibility Offered by the Preventive Health and Health Services Block Grant (GAO/HRD-84-41, May 8, 1984)

States Have Made Few Changes in Implementing the Alcohol, Drug Abuse, and Mental Health Services Block Grant (GAO/HRD-84-52, June 6, 1984)

States Fund an Expanded Range of Activities Under Low-Income Home Energy Assistance Block Grant (GAO/HRD-84-64, June 27, 1984)

States Use Several Strategies to Cope With Funding Reductions Under Social Services Block Grant (GAO/HRD-84-68, Aug. 9, 1984)

Community Services Block Grant: New State Role Brings Program and Administrative Changes (GAO/HRD-84-76, Sept. 28, 1984)

Federal Agencies' Block Grant Civil Rights Enforcement Efforts: A Status Report (GAO/HRD-84-82, Sept. 28, 1984)

Education Block Grant Alters State Role and Provides Greater Local Discretion (GAO/HRD-85-18, Nov. 19, 1984)

Public Involvement in Block Grant Decisions: Multiple Opportunities Provided but Interest Groups Have Mixed Reactions to States' Efforts (GAO/HRD-85-20, Dec. 28, 1984)

Block Grants Brought Funding Changes and Adjustments to Program Priorities (GAO/HRD-85-33, Feb. 11, 1985)

State Rather Than Federal Policies Provided the Framework for Managing Block Grants (GAO/HRD-85-36, Mar. 15, 1985)

LISTING OF THE CATEGORICAL PROGRAMS CONSOLIDATED INTO BLOCK GRANTS UNDER THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981

SOCIAL SERVICES

- Social Services for Low-Income and Public Assistance Recipients
- Social Services Training Grants--Title XX

LOW-INCOME HOME ENERGY ASSISTANCE

- Low-Income Energy Assistance Program

ALCOHOL, DRUG ABUSE, AND MENTAL HEALTH SERVICES

- Drug Abuse Community Service Programs
- Alcoholism Treatment and Rehabilitation/Occupational Services
- Alcohol Formula Grants
- Drug Abuse Prevention/Formula Grants
- Special Alcoholism Projects to Implement the Uniform Act
- Community Mental Health Centers - Comprehensive Services Support
- Drug Abuse Demonstration Programs
- Drug Abuse Prevention Programs
- Alcoholism Demonstration/Evaluation
- Alcohol Abuse Prevention Demonstration/Evaluation

COMMUNITY SERVICES

- Community Action
- Community Food and Nutrition
- Older Persons Opportunities and Services
- Community Economic Development
- State Economic Opportunity Offices
- National Youth Sports Program
- Housing and Community Development (Rural Housing)
- Rural Development Loan Fund

MATERNAL AND CHILD HEALTH SERVICES

- Crippled Childrens Services
- Maternal and Child Health Research
- Maternal and Child Health Services
- Maternal and Child Health Training
- Childhood Lead Based Paint Poisoning Prevention

MATERNAL AND CHILD HEALTH SERVICES (continued)

Sudden Infant Death Syndrome Information and Counseling
Comprehensive Hemophilia Diagnostic and Treatment Centers
Genetic Disease Testing and Counseling Services
Adolescent Pregnancy Prevention Services
Supplemental Security Income--Crippled Children Portion

PREVENTIVE HEALTH AND HEALTH SERVICES

Health Incentive Grants for Comprehensive Public Health
Urban Rat Control
Emergency Medical Services
Hypertension Program
Home Health Services and Training
Preventive Health Service - Fluoridation Grants
Grants for Health Education/Risk Reduction
Rape Crisis Counseling - Categorical program authorized in 1981 but never funded; authorized in 1982 block grant

EDUCATION - CHAPTER II

Civil Rights Technical Assistance and Training
Teacher Centers
Alcohol and Drug Abuse Education Program
Follow Through
Strengthening State Educational Agency Management
Teacher Corps - Operations and Training
Emergency School Aid Act - Basic Grants to Local Education Agencies
Emergency School Aid Act - Grants to Non-Profit Organizations
Emergency School Aid Act - Educational TV and Radio
Educational Television and Radio Programming
Use of Technology in Basic Skills Instruction
Ethnic Heritage Studies Program
National Diffusion Program
Career Education
Education for the Use of the Metric System of Measurement
Education for Gifted and Talented Children and Youth (State Administered and Discretionary Programs)
Community Education
Consumers' Education
Elementary and Secondary School Education in the Arts
Instructional Material and School Library Resources
Improvement in Local Educational Practice
International Understanding Program
Emergency School Aid Act - Magnet Schools, University/ Business Cooperation and Neutral Site Planning

EDUCATION - CHAPTER II (continued)

Career Education State Allotment Program
Basic Skills Improvement
Emergency School Aid Act - Planning Grants
Emergency School Aid Act - Pre-Implementation Assistance Grants
Emergency School Aid Act - Out-of-Cycle Grants
Emergency School Aid Act - Special Discretionary Assistance Grants
Emergency School Aid Act - State Agency Grants
Emergency School Aid Act - Grants for the Arts
Biomedical Sciences for Talented Disadvantaged Secondary Students
Pre-College Teacher Development in Science Programs
Secretary's Discretionary Program
Law-Related Education
Cities in Schools
PUSH for Excellence
Emergency School Aid Act - Evaluation Contracts

Note: This listing does not include programs consolidated into the small cities community development block grant. We reported on this block grant (GAO/RCED-83-186; Sept. 8, 1983), but the work was done for a different time period and involved a different set of states and, therefore, could not be summarized with the above block grants.

Also, we did not include the primary care block grant in our work because only one state had accepted it when our fieldwork started.

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